

## Message Text

SECRET

PAGE 01 JIDDA 01357 01 OF 02 220737Z  
ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W  
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R 220520Z FEB 78  
FM AMEMBASSY JIDDA  
TO SECSTATE WASHDC 1160  
INFO AMEMBASSY ABU DHABI  
AMEMBASSY BAGHDAD  
AMCONSUL DHAHRAN  
AMEMBASSY KUWAIT  
AMEMBASSY TEHRAN

S E C R E T SECTION 1 OF 2 JIDDA 1357

EXDIS

E.O. 11652: GDS  
TAGS: ENRG, SA, US  
SUBJECT: SAUDI THINKING ON OIL PRODUCTION AND PETROCHEMICAL MARKET

1. SUMMARY: CHAIRMAN OF TEXACO, MAURICE GRANVILLE, ACCOMPANIED BY ALFRED DE CRANE, JR., GENERAL COUNSEL AND SENIOR VICE PRESIDENT, AND ROBERT SHIELDS, VICE PRESIDENT PRODUCING EASTERN HEMISPHERE, BOTH MEMBERS OF ARAMCO'S BOARD, GAVE INTERESTING INSIGHT INTO FUTURE PRODUCTION PLANS OF SAG AS SAUDI TAKEOVER MOVES FORWARD. THEIR JUDGEMENT IS THAT THERE ARE NO FIRM FUNDED AND APPROVED PLANS TO INCREASE SAUDI OIL PRODUCTION CAPACITY BEYOND PRESENT 10-10 1/2 MILLION B/D. THEY ALSO HAD RECEIVED INDICATION FROM MINISTER OF PLANNING NAZER THAT SAG MAY BE THINKING OF ASKING FOR PROTECTED MARKET FOR ITS PETROCHEMICAL INDUSTRY AS BARGAINING CHIP FOR INCREASED OIL PRODUCTION. END SUMMARY.

2. MAURICE GRANVILLE, CHAIRMAN AND CHIEF EXECUTIVE  
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OFFICER OF TEXACO, ACCOMPANIED BY AL DE CRANE, GENERAL COUNSEL AND SENIOR VICE PRESIDENT, ROBERT SHIELDS, VICE PRESIDENT PRODUCING EASTERN HEMISPHERE, AND JOHN HADJIS, PRESIDENT OF TEXACO SAUDIA, HAD LENGTHY LUNCHEON SESSION WITH ME AND KEY STAFF PEOPLE ON FEBRUARY 18. THIS GROUP HAD JUST COMPLETED SEVERAL DAYS OF CONSULTATIONS IN THE KINGDOM

WHICH INCLUDED MEETING WITH AHD AND OTHER GOVERNMENT OFFICIALS INCLUDING HISHAM NAZER AND ZAKI YAMANI.

3. TEXACO OFFICIALS WERE LARGEY CONCERNED WITH REPUDIATION OF SEYMOUR HIRSH'S CHARGES OF ARAMCO MISMANAGEMENT, CITING SECOND "NEY YORK TIMES" ARTICLE OF FEB 8. DE CRANE AND SHIELDS ARE BOTH DIRECTORS OF ARAMCO AND SEEMED PLEASED BY YAMANI'S DENIAL OF HIRSH'S CHARGES PLUS A GENERAL LACK OF CRITICISM BY SAG OFFICIALS OF ARAMCO'S PREVIOUS MANAGEMENT PRACTICES.

4. DURING THE LUNCHEON, I ASKED POINTED QUESTIONS WITH RESPECT TO THE FUTURE PRODUCTION PLANS OF ARAMCO AS SEEN BY THIS GROUP. DE CRANE WAS EXPECIALLY ARTICULATE ON THIS ISSUE. HE STATED WITH SEEMING ASSURANCE THAT THERE WERE NO PRESENT PLANS TO INCREASE PRODUCTION BEYOND EXISTING CAPACITY WHICH HAD RECEIVED THE NECESSARY APPROVAL OF SAG. IN FACT, HE SAID IN ANSWER TO A SPECIFIC QUESTION THAT WHEN THIS QUESTION WAS ASKED OF YAMANI, THE REPLY HAD BEEN THAT THE GOVERNMENT HAD UNDER CONSIDERATION PLANS FOR EXPANSION BUT THAT TO EXPECT PRODUCTION CAPACITY TO BE INCREASED TO "THE TEENS" WAS SIMPLY NOT IN THE PICTURE. YAMANI DID SAY THAT HE HAD USED THE TERM 14 MILLION IN "NEWSWEEK" INTERVIEW BUT HE HAD MEANT TO USE THE FIGURE ONLY

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AS AN OUTSIDE LIMIT OF CONTEMPLATED CAPACITY.

5. WHEN ASKED ABOUT THE 50 CENTS PER BARREL RESERVE FOR CAPITAL EXPANSION, WHICH IN PREVIOUS INTERVIEWS SITH ARAMCO OFFICIALS KELBERER AND POWERS HAD BEEN REFERRED TO AS THE SOURCE OF FUNDING FOR THE EXPANSION OF PRODUCTIVE CAPACITY TO 13 MILLION BARREL RANGE BY 1985, THE GROUP UNANIMOUSLY SAID THAT NOTHING HAD BEEN APPROVED BUT THAT MOST OF THIS MONEY COULD BE USED FOR OTHER CAPITAL IMPROVEMENTS WHICH WOULD NOT INCREASE PRODUCTIVE CAPACITY.

6. AN INTERESTING ADDED DIMENSION WAS PROVIDED BY THEIR ACCOUNT OF THEIR MEETING WITH HISHAM NAZER, MINISTER OF PLANNING. WHEN ASKED A QUESTION CONCERNING THE CIRCUMSTANCES WHICH COULD PERSUADE SAG TO INCREASE OIL PRODUCTION TO MINIMUM LEVELS REQUIRED BY WESTERN WORLD IN MID-80'S, NAXER'S REPLIED THAT THIS WOULD BE VERY EXPENSIVE AND IT WOULD ONLY BE FAIR TO ESTABLISH SOME FORM OF COST SHARING BETWEEN THE OIL PRO-

DUCERS AND THE CONSUMERS IN THE WEST. ONE POSSIBLE WAY TO SHARE THESE COSTS WOULD BE FOR THE COUNTRIES WHO WERE BENEFITTING TO GUARANTEE WORLD MARKET TO SAG IN AREAS SUCH AS THE PETROCHEMICAL INDUSTRY. WHILE THE IDEA OF IMPROVED ACCESS TO MARKETS HAD BEEN MENTIONED ALMOST CASUALLY TO US PREVIOUSLY BY VARIOUS OFFICIALS, INCLUDING YAMANI, DEPUTY FOREIGN MINISTER ALIREZA, AND OTHERS, NAZER OUTLINED TO DE CRANE IN SOME DETAIL WHAT HE FELT THE BENEFITTING NATIONS SHOULD DO ON RETURN FOR SAG'S INCREASING PRODUCTIVE CAPACITY. ONE OF HIS POINTS WAS TO GUARANTEE SAG A MAJOR SHARE OF THE PETROCHEMICAL MARKET BY MEANS OF OFFICIAL ARRANGEMENTS INCLUDING TARIFFS AND TREATIES.

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7. COMMENT: WE MAY HEAR MORE OF THIS IN THE FUTURE.  
HISHAM NAZER INDICATED TO CODEL WILLIAMS/STEVENS

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INFO OCT-01 ISO-00 SSO-00 /026 W  
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INFO AMEMBASSY ABU DHABI  
AMEMBASSY BAGHDAD  
AMCONSUL DHARAN  
AMEMBASSY KUWAIT  
AMEXABASSY TEHRAN

S E C R E T SECTION 2 OF 2 JIDDA 1357

EXDIS

ON JAN 8 THAT SAUDI INTEREST IN EXPANDING OIL PRODUCTION WAS RELATED TO CAPACITY OF SAUDI

ARABIA TO ABSORB INCREASED AMOUNTS OF CAPITAL AND THAT SAUDI CAPITAL ABSORPTION CAPACITY COULD ONLY BE INCREASED THROUGH TECHNOLOGY TRANSFER. DR. AL-GOSAIBI, MINISTER OF INDUSTRY AND ELECTRICITY, TOLD SAME CODEL THAT SAUDI ARABIA WAS INTENT ON DEVELOPING PETROCHEMICAL INDUSTRY AND HE SUGGESTED THAT HIS INTERLOCUTORS COUNSEL FORIGN INVESTORS NOT TO GET INVOLVED IN BUILDING PETROCHEMICAL PLANTS, SINCE SAUDI ARABIA, WITH ITS NATURAL ADVANTAGE, WOULD BE IN POSITION IN FEW YEARS TO FORCE THEM TO CLOSE DOWN. ZAKI YAMANI MENTIONED TO SECRETARY SCHLESINGER DURING HIS VISIT THAT SAG NEEDED BETTER ACCESS TO WESTERN MARKETS FOR ITS PLANNED INDUSTRY. AL-GOSAIBI DEVELOPED MANY OF SAME POINTS IN SPEECH IN BAHRAIN LAST MONTH, ALTHOUGH MAIN EMPHASIS THERE SEEMED TO BE ON THE PETROCHEMICAL INDUSTRY SUCCESS IN SAUDI ARABIA BECAUSE OF THE NATURAL ADVANTAGES, PRIMARILY AVAILABILITY OF NATURAL GAS

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NOW BEING COLLECTED BY MAMMOTH EXPENSIVE SAUDI PROJECT. ABDULLAH ALIREZA, DEPUTY FOREIGN MINISTER FOR ECONOMIC AFFAIRS, HAS THERETOFORE BEEN THE MOST ARTICULATE SPOKESMAN FOR THIS VIEWPOINT. THE FACT THAT THIS THEME IS NOW BEING ADOPTED BY THE YOUNG TECHNOCRATS MAY WELL BE THE FIRST INDICATION THAT A GUARANTEED MARKET FOR PETROCHEMICAL MAY BECOME A MAJOR BARGAINING CHIP WHICH SAG INTENDDS TO USE WITH WESTERN WORLD IN RETURN FOR SUPPLYING NEEDED OIL TO THE WEST FOR DECADE OF 80'S. WE WILL ATTEMPT TO EXPLORE FURTHER THIS QUESTION. SINCE AL-GOSAIBI CAME TO U.S. ON FEB 19 FOR VISIT, WHICH INCLUDES SEVERAL SPEECHES, IT MAY BE WORTHWHILE TO MONITOR SPEECHES AS WELL AS TO PROBE GENTLY INTO HIS THINKING ON THIS MOST IMPORTANT ISSUE.

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